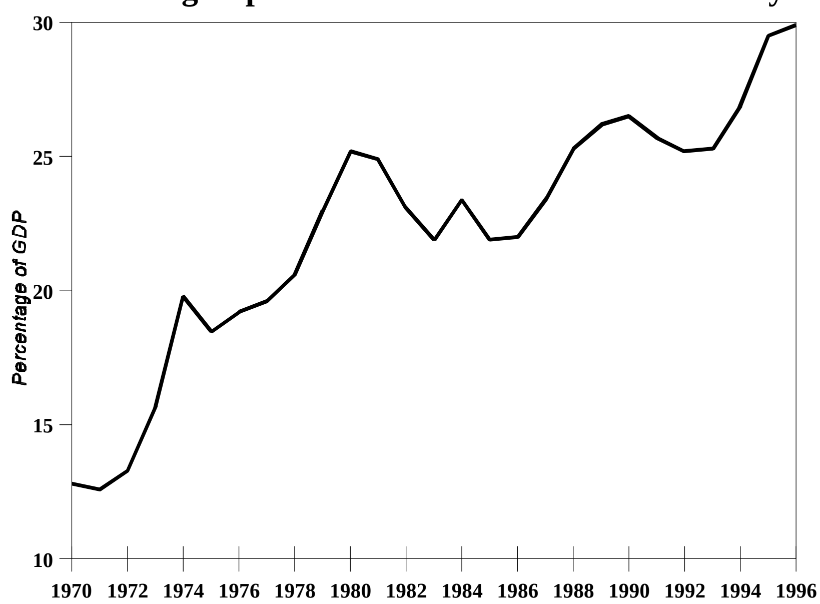
III. U.S. Trade in 1996

Total U.S. trade (exports and imports of goods and services, and earnings and payments on foreign investment)[1] has increased more than sixteen-fold since 1970, 44 percent between 1992 and 1996, and 6 percent in 1996 alone reaching a record $2.3 trillion. The continued U.S. economic expansion through 1996, together with growing foreign demand for U.S. products, especially by Mexico and other low and middle income countries, accounted for the additional increases in U.S. exports and imports during 1996. This growth in trade, in both nominal and real terms, has been more rapid than the overall U.S. economy. In nominal terms, trade has grown at an annual average rate of 11.5 percent per year since 1970, compared to U.S. gross domestic product (GDP) at 7.9 percent. In real terms, the growth in trade had more than doubled the growth in GDP, 6.4 percent to 3.1 percent. The value of total trade, compared to the value of GDP, reached 30 percent during 1996, as compared to 25 percent in 1992, and 13 percent in 1970 *(figure 1).*

Figure 1:

Growing Importance of Trade in the U.S. Economy



Total exports + total imports as a percentage of the value of U.S. GDP

Source: U.S. Department of Commerce

[1] Earnings on Foreign Investment are considered trade because they are conceptually the payment made to foreign residents for the service rendered by use of foreign capital. The rest of this chapter, however, deals with goods and services trade, excluding foreign investment earnings.

U.S. exports of goods and services in 1996 climbed 6.2 percent to reach $836 billion. This represents somewhat slower growth than 1995's rapid 13 percent increase and 1994's 9 percent expansion, but was greater than 1993's 4.1 percent increase. U.S. exports of goods and services have increased by more than 35 percent since 1992. More than one-fourth of the increase in U.S. GDP since 1992 has gone to export expansion.

Foreign demand for U.S. exports in 1996 was aided by continued competitiveness of U.S. producers, some improvements in foreign growth, as well as a competitively valued dollar (though the dollar appreciated toward the end of the year against some currencies). Recent foreign market opening agreements (e.g., the Uruguay Round and a number of bilateral agreements with Japan and other countries) also contributed to the strength of U.S. exports in 1996. U.S. goods export growth was led by sales of capital goods and consumer goods, both increasing 9 percent, and by agriculture products and manufacturing which both increased 8 percent.

Goods exports to low and middle income countries grew 9.4 percent in 1996, surpassing the 5.1 percent growth in exports to high income countries. Growing markets in the world's low and middle income countries -- primarily Mexico, but also Argentina and Chile in Latin America, and the Philippines, Singapore, and Thailand in East Asia -- increasingly absorbed U.S. exports. Low and middle income countries, especially in the Pacific Rim and Latin America (the two fastest growing regions in the world) are likely to remain the major contributors to U.S. export growth for many years to come. About 85 percent of total world population is in low and middle income countries, which import more than $1 trillion a year from high-income industrialized countries (nearly 43 percent of U.S. exports currently go to such countries). Extensive infrastructure/economic development needs in low income countries, coupled with U.S. preeminence in many capital goods markets, suggest that the United States is in an excellent position to continue benefitting from rapid growth in the low and middle income countries of the world.

Imports of goods and services grew in 1996 at slightly more than half the rate than the preceding year, up 6.5 percent to $950 billion. Import growth was 11 percent in 1995 and 12 percent in 1994. U.S. imports of goods and services have increased by more than 44 percent since 1992.

Goods import growth was led by purchases of industrial supplies and materials, up 10 percent, encouraged by the ongoing expansion of the U.S. economy in 1996. Imports of capital goods, after growing by 20 percent in each of the previous two years, only slightly increased by 4 percent in 1996. Capital goods and industrial supplies and materials currently account for more than one-half of U.S. imports, and industrial supplies and materials and capital goods have accounted for 66 percent of the dollar increase in U.S. goods imports during the expansionary years from 1992 to 1996.

The fastest growing sources of goods imports in 1996 were Mexico and China, up 18 percent and 13 percent, respectively. Since 1992, U.S. imports from Mexico have more than doubled, especially strengthened by Mexico's international liquidity difficulties culminating in a sharp depreciation of the peso in December 1994. U.S. imports from Latin America (excluding Mexico) increased by 16 percent in 1996. Imports from Japan, our second largest supplier after Canada, declined by 7 percent in 1996. U.S. imports of autos and auto parts from Japan, a major portion of our purchases, declined by nearly 9 percent in 1996.

Despite U.S. export growth continuing to outpace imports, the U.S. deficit in goods trade increased, from $173 billion in 1995 (2.4 percent of GDP) to $187 billion (also 2.4 percent of GDP) in 1996. More than half the increase in the goods deficit was offset by an increase in the surplus on trade in services, which rose from $68 billion to $73 billion. The total deficit on trade in both goods and services rose from $105 billion (1.4 percent of GDP) to $114 billion in 1996 (1.5 percent of GDP).

A major factor for the increase in the dollar trade deficit in 1996 was the significant rise in petroleum prices (up 19.9 percent relative to 1995). Excluding petroleum, the 1996 goods and services deficit actually dropped by an estimated 4.6 percent from 1995 and the goods deficit declined by nearly 4 percent from 1995.

Export Growth

U.S. goods exports grew 6.2 percent in 1996, less than the rate of growth in 1994 and 1995 (10.0 and 14.6 percent, respectively), but greater than the rate of growth in 1992 and 1993 (5.6 and 3.8 percent, respectively). Exports to high income trading partners continued to grow faster, 5.1 percent, than imports from these countries, 3.7 percent.

Growth in exports of foods, feeds, and beverages, capital goods, and consumer goods were strong, ranging between 9 and 10 percent in 1996. Agricultural manufacturing exports both increased by 8 percent. Since 1992, exports of capital goods have risen 44 percent, accounting for 41 percent of total goods exports in 1996. Moreover, since 1992, agricultural and manufacturing exports have grown by 41 and 42 percent, respectively *(table 1 and figure 2)*. Exports of advanced technology products (a part of manufactured exports) increased by 12 percent in 1996, and by 45 percent since 1992. Other bright spots in the export picture:

- Exports of consumer goods increased 8.7 percent in 1996, and were 36 percent higher than in 1992.

- Exports of autos and auto parts rose 6.8 percent in 1996, up 37 percent since 1992. Auto parts and engine exports to Japan were particularly strong, up $380 million, or 25 percent.

Factors contributing to the continued export growth in 1996:

- increased competitiveness of U.S. products;

- recovery of the Mexican economy;

- continued recovery of growth in a number of high income countries;

- continued growth of sales to the low and middle income countries of the world; and

- reduction of trade barriers through numerous bilateral and multilateral trade agreements.

Exports to high income countries increased 5 percent in 1996. This growth occurred in part because of stronger economic growth in Japan (our second largest trading partner) in 1996, and the recovery of other major industrial partners -- especially in Canada and Western Europe *(table 2).*

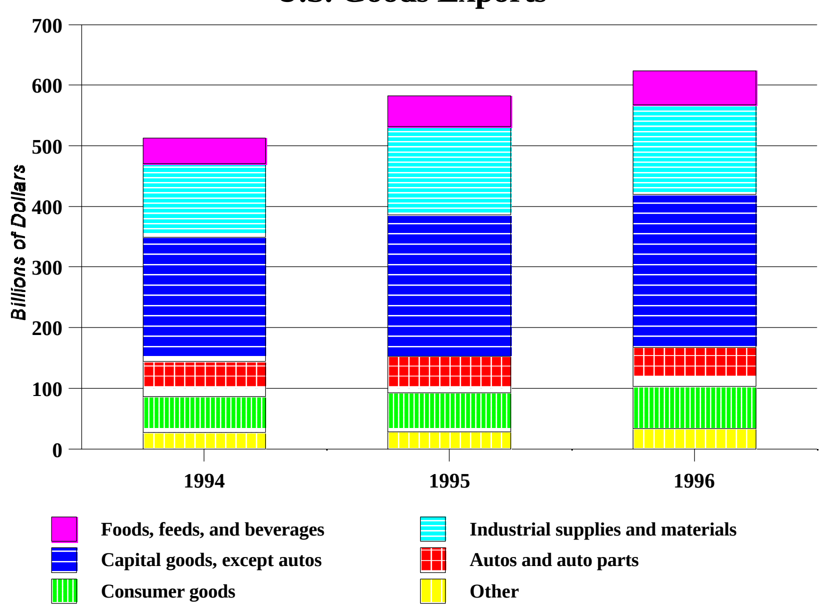
Sales to Japan increased 5 percent in 1996 (to $67.5 billion) and accounted for 11 percent of 1996 U.S. goods exports. This increase occurred despite the recent appreciation of the U.S. dollar from 84 yen per dollar in April 1995 to 114 yen per dollar in December 1996. Exports to Japan continued to grow faster than imports from Japan (which declined by 6.7 percent). Since 1992, exports to Japan have risen 41.4 percent, third only after China and Canada, despite Japan's extremely anemic economic growth over this period. Continued growth of the Canadian economy in 1996 resulted in a 5 percent increase in U.S. goods exports to Canada (our largest trading partner). Since 1992, exports have increased 48.3 percent, and 22 percent of U.S. goods exports last year went to our northern neighbor.

Table 1:
U.S. Goods Exports

Exports:	1994	1995	1996	95-96	92-96
	Billions of Dollars			*Percent Change*	
Total (BOP basis)	502.5	575.9	612.2	7.0%	39.2%
Food, feeds, and beverages	41.9	50.5	55.5	9.8%	38.3%
Industrial supplies and materials	121.3	146.1	147.2	0.8%	35.2%
Capital goods, except autos	205.3	232.9	252.4	8.5%	43.6%
Autos and auto parts	57.2	59.8	64.2	6.8%	37.2%
Consumer goods	60.0	64.5	70.1	8.7%	36.4%
Other	26.6	28.3	33.5	18.4%	39.5%
Addendum: Agriculture	46.3	56.4	60.6	7.5%	40.4%
Addendum: Manufacturing	430.8	485.0	522.7	7.8%	42.0%

Source: U.S. Department of Commerce, Balance of Payments Basis for Total, Census Basis for Sectors.

Figure 2:
U.S. Goods Exports



Source: U.S. Department of Commerce, Census Basis

Table 2: U.S. Goods Exports to Selected Countries/Region					
Exports to:	**1994**	**1995**	**1996**	**95-96**	**92-96**
	Billions of Dollars			*Percent Change*	
Canada	114.4	127.2	133.7	5.1%	48.3%
European Union	107.8	123.7	127.5	3.1%	18.4%
Japan	53.5	64.3	67.5	5.0%	41.4%
Mexico	50.8	46.3	56.8	22.6%	39.8%
China	9.3	11.8	12.0	1.9%	60.3%
Pacific Rim, except Japan or China	85.0	104.5	108.4	3.8%	56.7%
Latin America, except Mexico	41.8	50.0	52.5	5.0%	49.4%
Addendum: High Income Countries	299.6	341.7	359.4	5.1%	34.1%
Addendum: Low to Middle Income Countries	212.8	242.5	265.4	9.4%	47.4%
Addendum: APEC	320.7	364.3	389.7	7.0%	48.7%

Source: U.S. Department of Commerce, Census Basis

At the same time, goods exports to low and middle income countries increased over 9 percent in 1996. Leading this growth were exports to Mexico, which boomed by more than 22 percent, or $10 billion, in 1996 more than recovering from the decline of $4.5 billion in exports in 1995. Exports to Mexico, at $56.8 billion, were more than 35 percent higher than in 1993, the year before the beginning of NAFTA implementation.

The effect of NAFTA on U.S. exports to Mexico is nowhere more visible than in 1995 and 1996. In previous peso crises, Mexico raised many tariffs to levels as high as 100 percent and administratively cut off access for many U.S. exports. In 1995 and 1996, Mexico continued to cut tariffs vis a vis the United States in line with its NAFTA obligations (and in contrast to increases in barriers for non-NAFTA suppliers of the Mexican market). After 1982, 7 years were required for U.S. exports to recover; after December 1994, full recovery took place in just 19 months.

Sales to the Pacific Rim countries (excluding Japan and China) grew 4 percent, and sales to Latin America (excluding Mexico) grew 5 percent. These two regions represented over 26 percent of 1995 exports, up from 24 percent in 1992.

Exports to China, after exhibiting strong growth in 1995 (27 percent), slowed considerably to only a 1.9 percent increase in 1996. This decline in export growth was a result of a decline in two major sectors: agriculture (wheat, corn, soybean oil, and fertilizer) and textile inputs (cotton and manmade fiber and yarn). Exports to China in these categories declined by 44 percent in 1996, while exports in all other categories rose 21 percent. U.S. exports to China are dominated by higher-valued capital goods and industrial supplies, which account for some 80 percent of U.S. exports to China.

U.S. exports to the countries belonging to APEC (Asian Pacific Economic Cooperation)[2] rose by nearly 7 percent in 1996 and nearly 50 percent between 1992 and 1996. U.S. exports to APEC members represent 62 percent of all U.S. exports.

Imports

With the continued strong U.S. economic expansion, U.S. goods imports continued climbing in 1996, up 6.7 percent from the year before, but nearly half the increase in either 1994 or 1995 (13.4 percent and 12.1 percent, respectively). Over the last four years, goods imports have risen 49 percent as the economy moved out of the recession of the early 1990s into a period of healthy growth *(table 3 and figure 3).*

Import growth appears to be driven importantly by demands created by U.S. industrial expansion (from 1992 to the end of 1996, U.S. industrial output rose roughly 18 percent in real terms).

- Imports of capital goods led the way, rising 70 percent since 1992, though only 3.4 percent between 1995 and 1996. The share of capital goods in total imports has risen from 25 percent in 1992 to 29 percent in 1996.

- Purchases of foreign industrial supplies and materials rose 10 percent last year (45 percent since 1992), testimony to the demands of industrial output growth in the United States. These goods accounted for 25 percent of all goods imports last year.

Imports of consumer goods increased 6 percent in 1996, down one-third from the roughly 9 percent annual increases between 1993 and 1995. Consumer goods accounted for nearly 22 percent of total goods imports in 1996. Growth in purchases of foreign autos and auto parts remained relatively steady for the second year in a row, at approximately 5 percent, down significantly from the increases of 16 percent in 1994 and 12 percent in 1993. Imports in automotive products and consumer goods have risen by 40 percent and 39 percent, respectively, in the last four years. The share of these two categories in total imports was 38 percent in 1996, down slightly from 40 percent in 1992.

Purchases of food, feeds, and beverages rose 7.6 percent in 1996. This sector's share of imports fell modestly from slightly more than 5 percent of goods imports in 1992 to 4.5 percent last year.

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[2] The 18 countries belonging to APEC are Australia, Brunei, Canada, Chile, China, Hong Kong, Indonesia, Japan, Malaysia, Mexico, New Zealand, Papua New Guinea, Philippines, Singapore, South Korea, Taiwan, Thailand, and the United States.

Imports from high income countries continue to increase more slowly (3.7 percent in 1996, 39 percent since 1992) than imports from low and middle income countries (10.1 percent in 1996, almost 63 percent in the last four years) *(table 4).*

Mexico continued to be our fastest growing supplier of goods imports. Imports from Mexico increased 18.3 percent in 1996, representing somewhat slower growth than the robust 24.7 percent increase in 1995, and the 24 percent increase in 1994. Imports from Mexico have more than doubled in the last four years. The strength of the growth of imports from Mexico in 1995 and 1996 is significantly attributable to Mexico's balance-of-payments difficulties in 1994 and 1995 and the resulting sharp decline in the value of the peso vis a vis the dollar.

Purchases from China increased by 13.1 percent in 1996. Imports from China have doubled since 1992, but account for only 6.4 percent of total U.S. goods imports. The increase in imports from China appears to be associated, in part, with the shifting of parts of the production processes depending on lower skilled workers from elsewhere in Asia where wages have risen significantly. Consumer goods, such as apparel, toys, and some areas of consumer electronics, now make up more than 71 percent of U.S. imports from China. As China's share of such U.S. imports has risen, that of some other Asian countries have fallen.

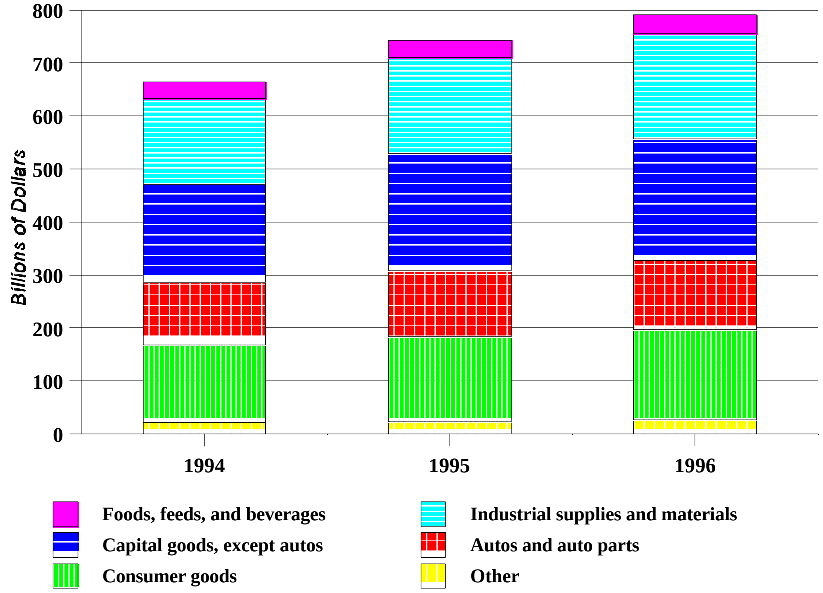
Table 3:
U.S. Goods Imports

Imports:	1994	1995	1996	95-96	92-96
	Billions of Dollars			*Percent Change*	
Total (BOP Basis)	668.6	749.4	799.3	6.7%	49.0%
Food, feeds, and beverages	31.0	33.2	35.7	7.6%	29.2%
Industrial supplies and materials	162.0	180.8	199.3	10.2%	44.6%
Capital goods, except autos	184.6	221.5	229.0	3.4%	70.4%
Autos and auto parts	118.6	124.5	130.1	4.4%	42.0%
Consumer goods	146.3	160.0	171.1	6.9%	39.3%
Other	21.3	23.4	26.1	11.6%	47.4%
Addendum: Agriculture	25.9	29.3	32.6	11.3%	38.9%
Addendum: Manufacturing	557.9	629.6	659.9	4.8%	52.0%

Source: U.S. Department of Commerce, Balance of Payments Basis for Total, Census Basis for Sectors.

Figure 3:

U.S. Goods Imports



Source: U.S. Department of Commerce, Census Basis

Table 4: U.S. Goods Imports from Selected Countries/Regions					
Imports from:	**1994**	**1995**	**1996**	**95-96**	**92-96**
	Billions of Dollars			*Percent Change*	
Canada	128.4	145.3	156.5	7.7%	58.9%
European Union	119.5	131.8	142.7	8.3%	40.9%
Japan	119.5	123.5	115.2	-6.7%	18.6%
Mexico	49.5	61.7	73.0	18.3%	107.4%
China	38.8	45.5	51.5	13.1%	100.6%
Pacific Rim, except Japan or China	103.2	119.7	123.3	3.0%	45.0%
Latin America, except Mexico	38.5	42.3	48.8	15.6%	45.7%
Addendum: High Income Countries	384.9	421.1	436.6	3.7%	38.7%
Addendum: Low to Middle Income Countries	278.3	322.3	354.8	10.1	62.8%
Addendum: APEC	450.4	508.1	532.2	4.7%	51.9%
Source: U.S. Department of Commerce, Census Basis					

Imports from Latin America (excluding Mexico) increased by 16 percent in 1996, 3 times the rate of U.S. exports to this region. However, imports increased by 46 percent since 1992, less than the 49 percent increase in U.S. exports in this time period. Imports from the Pacific Rim (excluding Japan and China) have risen 45 percent since 1992, but only 3 percent in 1996. This region represented nearly 16 percent of total U.S. imports in 1996.

Imports from Canada were up 7.7 percent in 1996 (nearly 59 percent since 1992), those from the European Union rose 8.3 percent in 1996 (up 41 percent in the last four years).

Imports from Japan declined by 6.7 percent in 1996 (down more than $8 billion). Forty percent of this decline was accounted for by imports of automobile products from Japan which declined by 9 percent, or by $3.4 billion, in 1996. Purchases from Japan in 1996 represented less than 14.5 percent of U.S. imports, as compared to almost 18.1 percent during 1992.

U.S. imports from the countries belonging to APEC increased by 4.7 percent during 1996 (less than our exports to these countries), and by nearly 52 percent between 1992 and 1996. U.S. imports from APEC members represent 67 percent of total U.S. imports in 1996.

The U.S. Trade Deficit

For the second year in a row, the U.S. goods trade deficit increased somewhat, up 5.7 percent in 1996 and up 4.4 percent in 1995, considerably slower than the 38 percent and 25 percent jump in

1993 and 1994, respectively. Since 1992, the goods trade gap has widened 91 percent. As a share of U.S. GDP, it has risen from 1.5 percent -- the end of the recession -- to 2.4 percent in 1996. Although export growth exceeded import growth in 1996, import growth was on a larger 1995 base, and the trade deficit grew somewhat.

Rising petroleum prices (up 19.9 percent in 1996) played a significant role in the modest uptick in the goods trade deficit this year. The goods trade deficit, excluding petroleum, dropped by 3.5 percent in 1996; the goods and services trade deficit, excluding petroleum, declined even more, falling 4.6 percent in 1996.

The rise in our trade deficit since 1992 is, in fact, related to the favorable performance of the U.S. economy. The U.S. economy began to recover earlier than other countries from the global recession of the early 1990s and to grow faster than the markets of many of our major trade partners. As a result, our demand for imports rose at a time when foreign demand for U.S. exports was dampened by lack of growth in foreign purchasing power. For example, U.S. industrial production grew by 18 percent in real terms over the last four years. In contrast, the level of industrial production in Japan grew only 2.8 percent and the level in Germany declined by 3.3 percent. Similarly for employment, the 11.2 million job increase since January 1992 stands in sharp contrast to near zero (600,000) job growth in the other high-income, large industrial economies of the G-7. The U.S. unemployment rate was 5.3 percent in December 1996, compared to an average rate over 10 percent for all European OECD countries.

Sustained moderate growth of the U.S. economy in 1997 and fundamental factors continuing to support U.S. export expansion suggests continuing moderation in the change in the U.S. trade balance in 1997. These fundamentals include:

- the continuance of economic growth abroad (especially in low and middle income countries);

- the continuation of foreign market opening through the continued phase-in of recently concluded agreements (e.g. the NAFTA and Uruguay Round), the enforcement of market opening disciplines already accepted by U.S. trade partners, and efforts on behalf of new market opening agreements;

- the continued efforts of U.S. firms and workers -- the world's most productive -- to produce better products more efficiently;

- the continued attractive pricing of U.S. products through low inflation; and

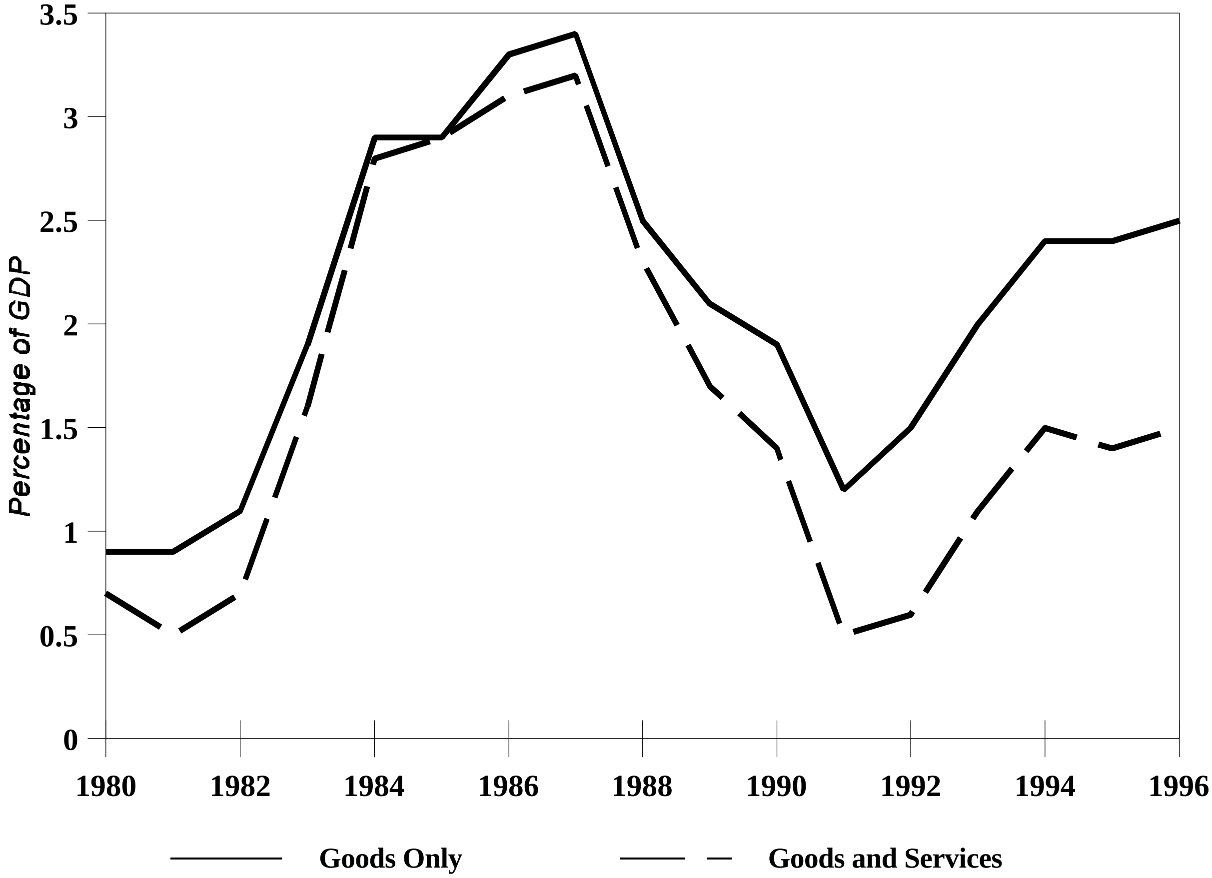
- progress in raising U.S. domestic saving relative to investment, in particular through continued progress in reducing the federal budget deficit.

If indeed the peak of the trade deficit as a share of GDP has been seen in this economic cycle, it will represent considerable U.S. progress relative to outsized deficits of the mid-1980s. At their previous peaks in 1987, the U.S. goods deficit represented 3.4 percent of GDP and the U.S. goods and services deficit 3.3 percent of GDP. In 1996, the deficit relative to GDP for goods alone, at 2.5 percent, was nearly a third lower than in 1987, while the deficit relative to GDP for goods and services, at 1.5 percent was less than half of 1987's 3.3 percent level *(figure 4)*.

Bilaterally in 1996, the United States reduced its goods trade deficit with Japan by 22 percent and with the Pacific Rim, excluding Japan and China, by 2.8 percent. The U.S. surplus with Latin America, excluding Mexico, declined in 1996, but was still higher than 1992 - 1994 levels. United States' deficits, however, increased with China (up 16 percent), with Canada (up 28.6 percent), and with Mexico (up 8.1 percent) *(table 5)*.

Figure 4:

Trade Deficit as a Percentage of GDP



Source: U.S. Department of Commerce

Table 5: U.S. Merchandise Trade Balance with Selected Countries/Regions			
Balance with:	**1994**	**1995**	**1996**
	Billions of Dollars		
World (BOP Basis)	-166.1	-173.4	-187.6
Canada	-14.0	-18.1	-22.8
European Union	-11.7	-8.2	-15.2
Japan	-65.7	-59.1	-47.7
Mexico	1.4	-15.4	-16.2
China	-29.5	-33.8	-39.5
Pacific Rim, except Japan or China	-18.2	-15.2	-14.9
Latin America, except Mexico	3.3	7.7	3.7
Addendum: High Income Countries	-85.4	-79.5	-77.2
Addendum: Low to Middle Income Countries	-65.5	-79.8	-89.4
Addendum: APEC	-129.7	-143.8	-142.5

Source: U.S. Department of Commerce, Balance of Payments Basis for World, Census Basis for Countries/Regions.

Services Trade

Exports of services continued to grow, but at a slower rate than in the late 1980s. Services exports reached $224 billion in 1996, up 26.3 percent since 1992. Import growth was slightly lower than export growth, up 26.0 percent since 1992, to $150 billion in 1996. As a result, the services trade surplus increased to over $73 billion in 1996, up nearly 27 percent since 1992. The growth in the services trade surplus continued to help offset approximately 40 percent of the deficit in the goods account. The combined deficit on goods and services therefore increased by 8.7 percent in 1996 *(table 6 and figure 5).*

High income countries, and fast-growing low and middle income countries in the Pacific Rim and Latin America, are rapidly increasing their demand for services both for final consumption and as inputs to manufacturing and primary industries. Disciplines are being developed through Uruguay Round implementation with respect to curtailing U.S. trade partners' ability to discriminate against efficient U.S. service exports. The resulting more open markets will aid in expanding U.S. service exports. As the world's largest exporter of services (as of goods, as well), the United States is in an excellent position to take advantage of any growth in demand for services. Business, professional, technical, environmental, communication, and other services important to economic development as well as entertainment and travel services, are areas of great U.S. strength which should benefit from more open markets and stronger global growth.

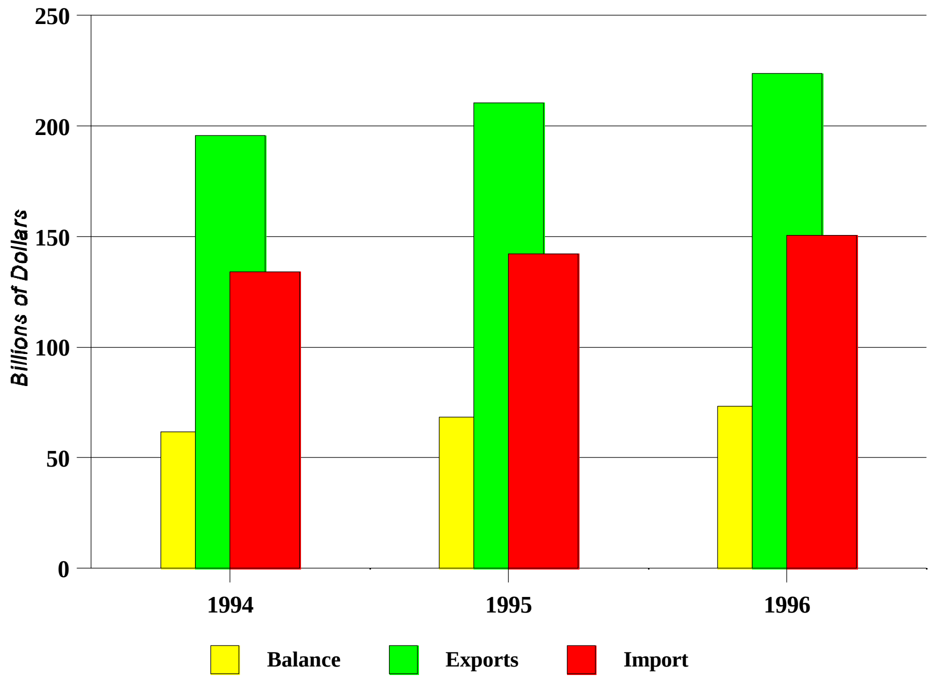
Table 6:
U.S. Trade in Services

Balance:	**1994**	**1995**	**1996**	**95-96**	**92-96**
	Billions of Dollars			*Percent Change*	
Overall balance	61.7	68.4	73.4	7.3%	27.0%
Exports	195.8	210.6	223.9	6.3%	26.3%
Imports	134.1	142.2	150.5	5.8%	26.0%
Addendum: Goods and services balance	-104.4	-105.1	-114.2		
Addendum: Trade balance/GDP ratio (*percent*)	-1.5%	-1.4%	-1.5%		

Source: U.S. Department of Commerce, Balance of Payments Basis

Figure 5:

U.S. Trade in Services



Source: U.S. Department of Commerce, Balance of Payments Basis